



PAY FOR SUCCESS: INVESTING IN WHAT WORKS

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On October 21, 2011, the White House Office of Social Innovation and Civic Participation and Nonprofit Finance Fund co-hosted the *Pay for Success: Investing in What Works* convening with support provided by the Rockefeller Foundation. This report outlines: 1) background on Pay for Success financing; 2) lessons around the interest in and support needed to pursue Pay for Success projects; 3) opportunities for future progress in the field; and 4) a sampling of resources for additional learning.

What is Pay for Success?

At a time when citizens and their governments are being asked to do more with less, innovators around the world are seeking cost-effective solutions that can deliver better outcomes for their communities. Pay for Success has emerged as one such strategy. Currently being implemented as far as the United Kingdom and Australia and as close as New York, Pay for Success financing and grant-making models can direct taxpayer dollars to interventions that have demonstrated success in delivering social and economic outcomes for individuals, families, and communities most in need. The concept of Pay for Success is simple: pay for services if and when they achieve the desired results that achieve social outcomes and ultimately save money.

How are Pay for Success models currently being applied?

With its potential applicability across a wide range of social issues – including homelessness, adult and juvenile re-offending, drug addiction and unemployment – the Pay for Success model has been under serious consideration around the world for the past two years. Most notably, with investment support from the Rockefeller Foundation and local charitable organizations, the United Kingdom launched the first social impact bond pilot in 2010 to reduce recidivism rates by seven percent over an eight-year period at Peterborough Prison. Since then, the United Kingdom and Australia have made considerable progress toward launching additional Pay for Success pilot programs in the areas of homelessness and care of individuals with disabilities.

In his 2012 budget request, President Obama included \$100 million for Pay for Success initiatives across seven program areas, including workforce development, education, juvenile justice and care of children with disabilities. At the same time, a handful of state and local governments in the United States began actively exploring the applicability of the Pay for Success model in their communities. Among these states, Massachusetts, Minnesota and New York City have taken concrete steps to pursue Pay for Success pilot projects, such as releasing a Request for Information, or receiving approval from the State Legislature to pursue such projects.

What was the objective of the White House convening on Pay for Success?

On October 21, 2011, the White House and Nonprofit Finance Fund developed a forum for learning and planning for future Pay for Success pilots: *Pay for Success: Investing in What Works*. More specifically, this convening brought together cross-sector stakeholders to 1) build a unified conversation on Pay for Success; 2) foster knowledge-building among state and local communities; 3) build a pipeline of

communities interested in pursuing Pay for Success pilot projects; and 4) determine the specific and critical actions that can be taken to support these efforts.

Participants included representatives from foundations, academia, intermediaries, service providers, Federal agencies, and Congress. State and local governments, the primary audience for the conversation, comprised two-thirds of the ninety-plus person event. Key topics of conversation included: 1) the definition of Pay for Success; 2) the importance of this concept at a local, state, and federal level; 3) lessons from states currently pursuing and implementing Pay for Success projects; 4) potential social and economic issues to which the model could apply; and 5) opportunities and challenges of structuring these projects. The convening was streamed live on the White House website, and is now available online at the Nonprofit Finance Fund Learning Hub, www.payforsuccess.org.

What was learned from the convening?

Commitment of the Obama Administration to Support Pay for Success Projects in 2012

Both Melody Barnes, Former Director of the White House Domestic Policy Council, and Robert Gordon, Executive Associate Director of the White House Office of Management and Budget, were enthusiastic about the potential for Pay for Success as a new form of grant-making focused on delivering better outcomes for some of the most vulnerable and hardest-to-serve populations. As Ms. Barnes said at the convening, “If we are to truly transform lives and achieve results for those who are the hardest to serve, then we must commit to paying for and scaling what works.” The convening gave Federal agencies valuable insight into the intentions of state and local governments to pursue Pay for Success projects in the near term, as well as the opportunities and challenges they anticipate. Ms. Barnes announced the Administration’s commitment to launching Pay for Success pilots in 2012 and noted that several agencies were already actively engaged in discussions to assess the potential for launching pilots using existing authorities.

Strong Interest in Pay for Success in the Areas of Criminal Justice, Homelessness, and Education

Ninety-two percent of participants who responded to a post-convening survey indicated that the convening furthered their interest in pursuing a Pay for Success pilot. “I was completely new to Pay for Success and now I consider it whenever we discuss any type of program,” one local government participant said. As another described, “This vehicle sparks creativity and encourages the use of new approaches. If we continue to develop this tool and the ideas for ancillary sources of funding which are stimulated by this model, we have a chance to truly innovate.”

In addition to Massachusetts, Minnesota and New York City, each of which had already taken concrete steps to pursue Pay for Success pilots as noted above, state and local government participants – including Connecticut, Michigan, New York State, Rhode Island, Virginia, Atlanta, Los Angeles, and Louisville – provided a clear sense that they were considering or pursuing Pay for Success pilots. Criminal justice, homelessness, early childhood education, and workforce development ranked among the top of the list of issues that participants are interested in addressing with Pay for Success projects. These issues

are reflected in the Pay for Success pilots that Massachusetts, Minnesota, New York, New York City, and Los Angeles are currently pursuing.

Desire for a Pay for Success “Community of Practice” to Support State and Local Governments

Seventy-five percent of participants who responded to the post-convening survey indicated that their ability to bring together and mobilize a diverse group of interested parties would be critical to capably executing Pay for Success in their communities. In order to build that capacity, state and local governments recommended the continued development of a cross-sector “community of practice” to provide the following: 1) a centralized communication vehicle for requesting, providing and sharing support, resources and knowledge; 2) a comprehensive best practice toolbox that can be accessed by state and local governments at varying stages in the pilot project pipeline; and 3) follow-on convenings to support the progress of state and local governments through the lifecycle of a Pay for Success project. The collaborative network of stakeholders initiated at the October 21, 2011 convening is the framework for the sort of “community of practice” that will enable the responsible and effective replication, diversification and scaling of the Pay for Success financing models to occur.

What’s next?

Administration Officials Will Support Pay for Success in 2012 and Beyond

As Administration Officials indicated at the convening, Federal agencies are actively exploring how the Federal government can support Pay for Success project development and knowledge-building in 2012 and beyond. Specifically, two agencies – the Department of Justice and the Department of Labor – will lead the way for the Administration’s support of Pay for Success pilots through 2012 competitions. The Department of Justice plans to give priority funding consideration in 2012 Second Chance Act grant solicitations to highly qualified applicants who incorporate a Pay for Success model in their program design. The Department of Labor will also launch one of the first Pay for Success funding opportunities through the Workforce Innovation Fund by early spring, making up to \$20 million available for programs that help individuals obtain employment. Agencies will be releasing more information on these, and potentially other, opportunities in the coming weeks and months.

State and Local Governments Will Build External Support and Internal Capacity

The convening encouraged many state and local governments to take the next step towards developing and implementing a successful Pay for Success project. Most planned to continue meeting with external leaders and intermediaries, pursue funding, and build support internally. Since October, additional communities have made public their intention to pursue such projects. Among others, Social Venture Partners Rhode Island announced their collaboration with Social Finance, Inc to explore the model, while the Children’s Aid Society in New York received a grant from the Rockefeller Foundation to use the Pay for Success model to serve at-risk children. As indicated on the survey, ninety-three percent of state and local government respondents are seeking help connecting with 1) other groups advancing Pay for Success pilot projects and 2) interested funders – both areas with which the cross-sector members of the Pay for Success community can assist.

Intermediaries Will Continue to Build and Enrich the Community of Practice

Non-governmental players in Pay for Success projects have a key role to play in connecting interested parties and building the knowledge base around Pay for Success financing. Some of these forums already exist, such as Nonprofit Finance Fund's online Learning Hub (www.payforsuccess.org) that provides the latest information on Pay for Success news and tools, while others continue to develop, such as the Annie E. Casey Foundation's conversations to explore innovative financial strategies that promise to deliver better outcomes for children more efficiently. Nonprofit Finance Fund and other intermediaries are actively working to build out the specific Pay for Success Community of Practice supports requested by state and local governments, namely 1) a centralized communication vehicle for sharing resources; 2) a comprehensive toolbox that can be accessed by state and local governments at varying stages in the pilot project pipeline; and 3) follow-on convenings to support the progress of state and local governments through the lifecycle of a Pay for Success project.

Where can I learn more?

Materials from *Pay for Success: Investing in What Works*, and much more, can be found on the Nonprofit Finance Fund Learning Hub: www.payforsuccess.org, including:

- Convening Agenda and Attendee List
- Pre-Convening Background Materials
 - “Social Impact Bonds: Rethinking Finance for Social Outcomes,” Social Finance.
 - “Financing What Works: Social Impact Bonds Promise,” Center for American Progress.
 - “Robust Intermediaries Key to Social Impact Bond Success,” Tactical Philanthropy.
 - “Preparing Nonprofits for Social Impact Bonds,” Tactical Philanthropy.
 - “The Social Impact Bond as Ironclad Arrangement,” Harvard Business Review.
 - “Social Impact Bonds Can Transform Education,” Baltimore Sun.
 - “For Federal Programs, A Taste of Market Discipline,” New York Times.
 - “Social Impact Bonds: A Promising New Financing Model to Accelerate Social Innovation and Improve Government Performance,” Center for American Progress.
- Convening Recordings
 - “Pay for Success 101 (Pre-Convening),” Jitinder Kohli, Center for American Progress.
 - “Pay for Success in Theory and Practice,” Melody Barnes, White House; Doug Besharov, University of Maryland; Linda Gibbs, City of New York; Jay Gonzalez, Commonwealth of Massachusetts; Robert Gordon, White House; and Kippy Joseph, Rockefeller Foundation.
 - “Pay for Success Readiness,” Jeff Liebman, Harvard University; George Overholser, Third Sector Capital Partners; Tracy Palandjian, Social Finance US; Bill Pinakiewicz, Nonprofit Finance Fund; and Lester Salamon, Johns Hopkins University.
 - “The Future of Pay for Success,” Jonathan Greenblatt, White House; Kristin Giantris, Nonprofit Finance Fund; and Gene Sperling, White House.

